Changing Behavior

How to Bend the Cost Trend of Your Health Plan

It's about the Economics!

- Health Care Economics
  - Suppliers to the health care system
  - Demand for health care
- Three Numbers to Keep in Mind
  - $1.6 Trillion
  - 16% of GDP
  - 70%
- Health Risks – drive demand
- Changing Behavior
  - Economic Incentives
  - Manage Cause (Demand) not Cost (Supply)
- Results

Economics of the Health Industry

SUPPLY SIDE

- Hospitals
- Medical Devices
- Pharmaceuticals
- Health Insurance
- Lawyers
- Doctors
- Agents and Brokers
- Government
- Food Industry

Economic Drivers

- Sell More services
- Sell More Devices
- Sell More Drugs
- Sell More premium
- Sue More people
- Provide More care
- Sell More insurance
- Unintended Consequences
- Sell More Processed Food

Economics of the Health Industry
Misaligned Incentives
Demand Side Economic Drivers

- Employers
- Employees

- Benefit designs that encourage overutilization
- Lack of C-Level leadership
- Belief that benefits attract and retain employees
- Disconnects
- No incentive for healthy behavior

Health Care Costs in Context

If grocery prices had risen at a comparable rate to health care since the 1930s, consumers would currently be paying :

- Dozen Oranges — $107.90
- Roll of Toilet Paper — $24.20
- Pound of Coffee — $64.17
- Pound of Butter — 102.07

Source: American Institute for Preventive Health, Blue Cross and Blue Shield Associations

Health Care System

- Represents 16% of GDP
  - As Baby Boomers age can we sustain an ever greater burden on the economy?
  - Is this inevitable?
- Current annual outlays for health care is $1.6 Trillion
- The amount of healthcare care demand that is attributable to lifestyle behavioral **choices** has been estimated between 50%-70%
  - **Poor lifestyle behavioral choices create health risks which ultimately manifests in demand for medical care**

What would the impact on the economy be if we as a nation all improved our health by

10%?

$160,000,000,000

What Drives Health Care **COSTS**?

DEMAND

What Drives Demand?

RISK

Major Controllable Risk Factors

- Tobacco Use (employee and spouse)
- Hypertension/Blood Pressure
- Cholesterol
- Obesity/Body Mass Index
- Glucose

As individuals **lower health risks** by managing controllable factors demand for health care services will go down

Many Try to Manage the **Cost**, not the **Cause**

The most common strategy is to **shift cost**

- Raise premiums
- Raise deductibles
- Raise co-pays
- Eliminate or reduce benefits

Cost shifting drives financial behavior changes, but does not drive behavior change and reduction in health risk. We need to address what is causing the claims, not just who is paying the bill.

Demand Disconnects

- Health and manifestation
- Health costs and who pays
- Health benefits and compensation
- Employee health and profitability
- Entitlement vs. Responsibility

Health Promotion Strategies

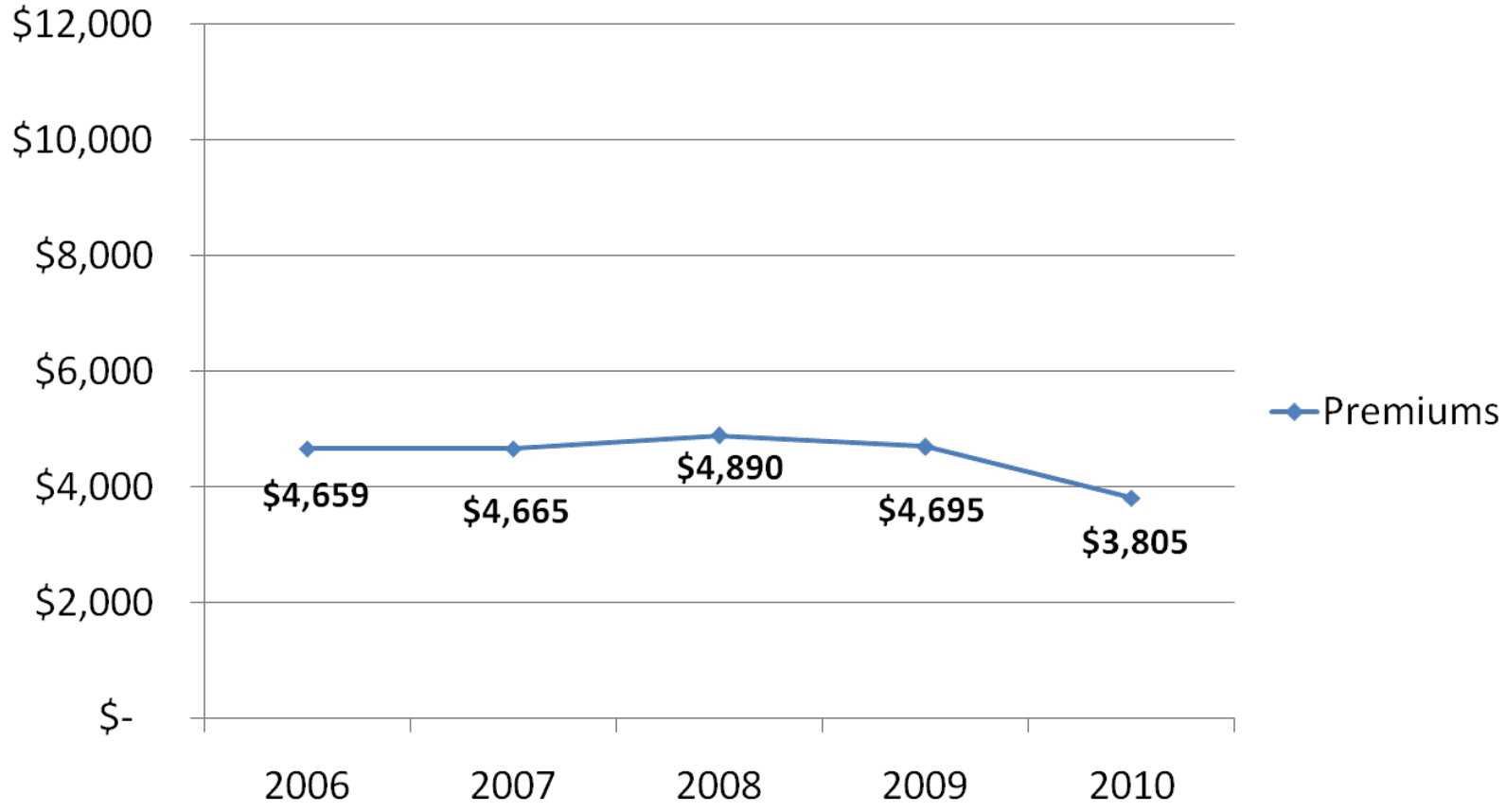
- Communication and Education
- Participation programs
- Participation with rewards
- Outcomes based incentives
- Outcome based and participation based incentives

Types Of Incentives/Rewards

- Gift Card
  - Funded By Present Value – Funded Upfront
  - Retailer May Go Under – e.g. Circuit City
  - Employees Lose And Incur Admin Expenses
  - Each $1 Costs Approximately $1.40
- Cash
  - Additional Benefit
  - Each $1 Costs At Least $1
  - May Be Taxable
- Actuarial Incentives – Most Cost Effective
  - Costs .20 -.30 Per $1
  - Contributions Tax Deductible

Bank of XYZ

In 2018 Health Reform imposes a 40% excise tax on employers who exceed a single employee rate of $10,200



Workforce Management May 2009

Unhealthy Employees Cut Productivity,
Study Finds

For every dollar spent on medical costs and pharmaceuticals, there is $2.30 of health-related productivity losses due to absenteeism and presenteeism, according to a recent study.

By Joanne Wojcik

Comments 0 | Recommend 5

oor health among U.S. workers costs employers much more in reduced productivity than many realize, according to a multi-year study of 10 employers and more than 150,000 workers.

The study, published this month in the *Journal of Occupational and Environmental Medicine, found that presenteeism—when employees are* present at their jobs but unable to perform at full capacity—creates a greater drain on company productivity than employee absence, a finding that may come as a surprise to many employers, researchers say.

For every dollar spent on medical costs and pharmaceuticals, there is $2.30 of health-related productivity losses due to absenteeism and presenteeism, according to the study. For certain conditions, such as anxiety, employers lose as much as $20 in productivity for every dollar they spend on medical care and pharmaceuticals.

Harvard Study

Cost control is not, in fact, all pain and no gain. It's some pain in return for a fat raise. A 2006 study by Harvard's Katherine Baicker and Amitabh Chandra used malpractice payments to estimate the effect of premium increases on wages. They found that a 10 percent increase in health care premiums "results in an offsetting decrease in wages of 2.3 percent" and an increase in unemployment of 1.2 percentage points. Compensation is basically a set sum for employers, and they don't seem to care much whether it goes into wages or into health care costs.

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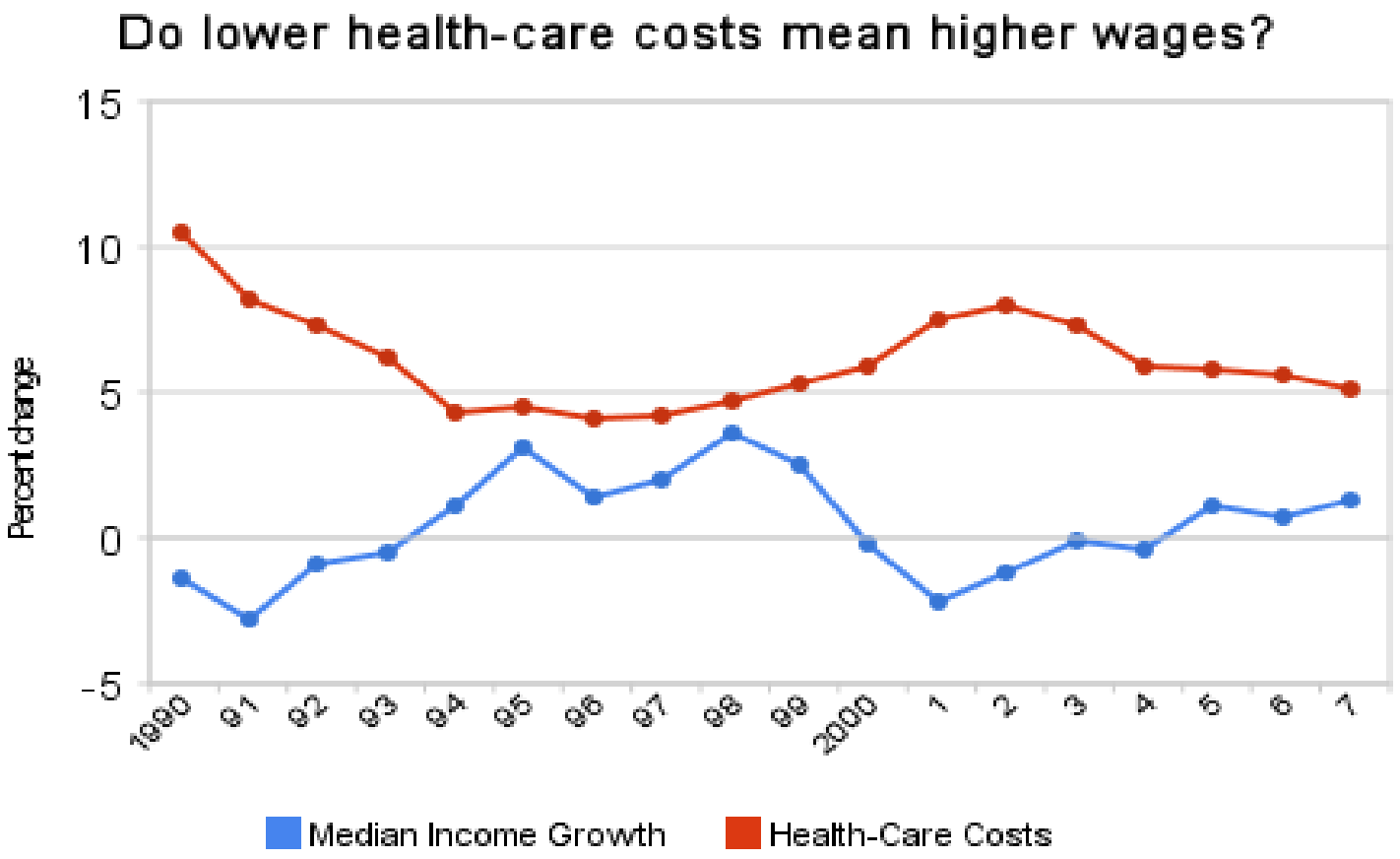
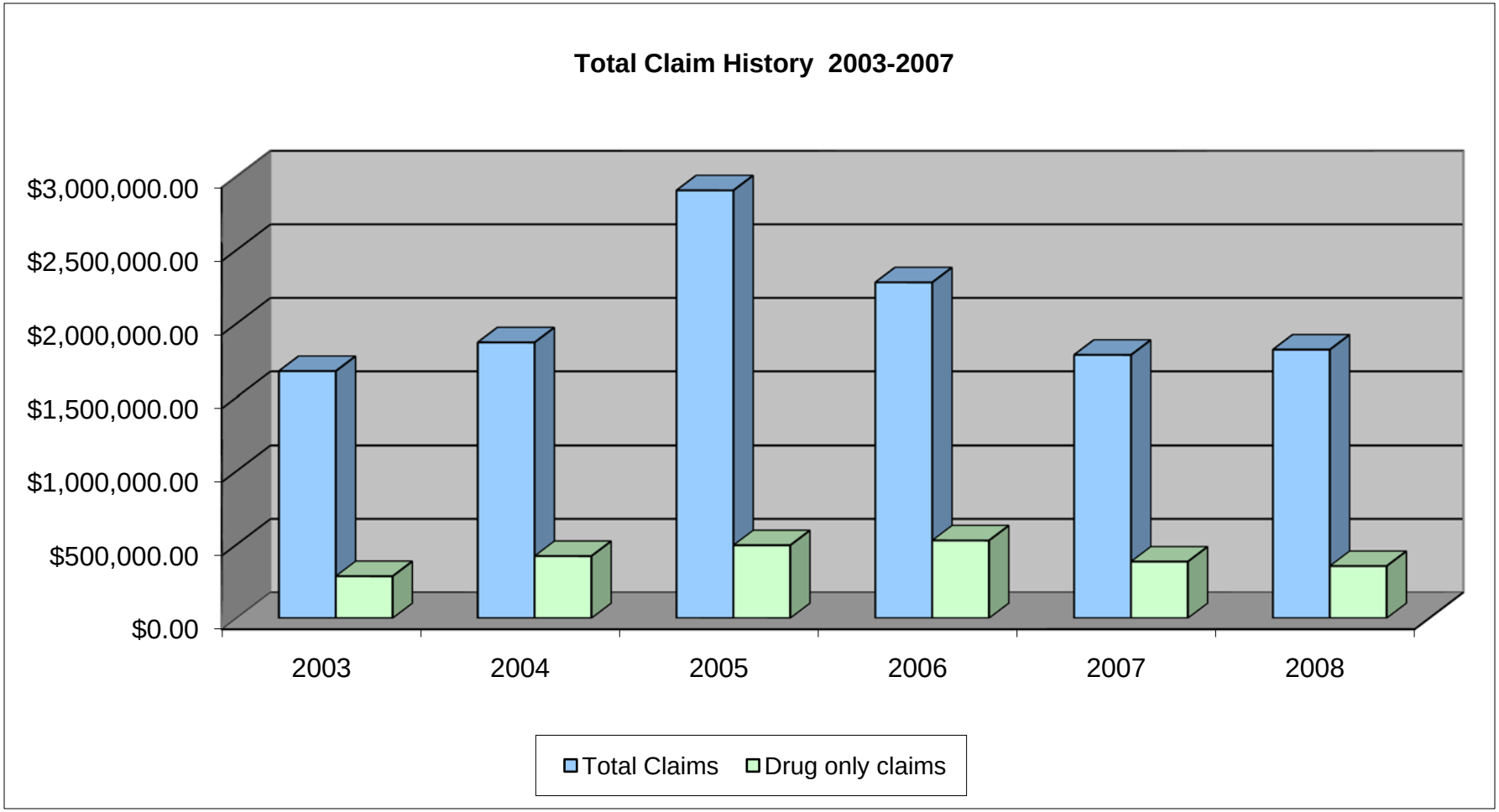
Why this matters to Employees?

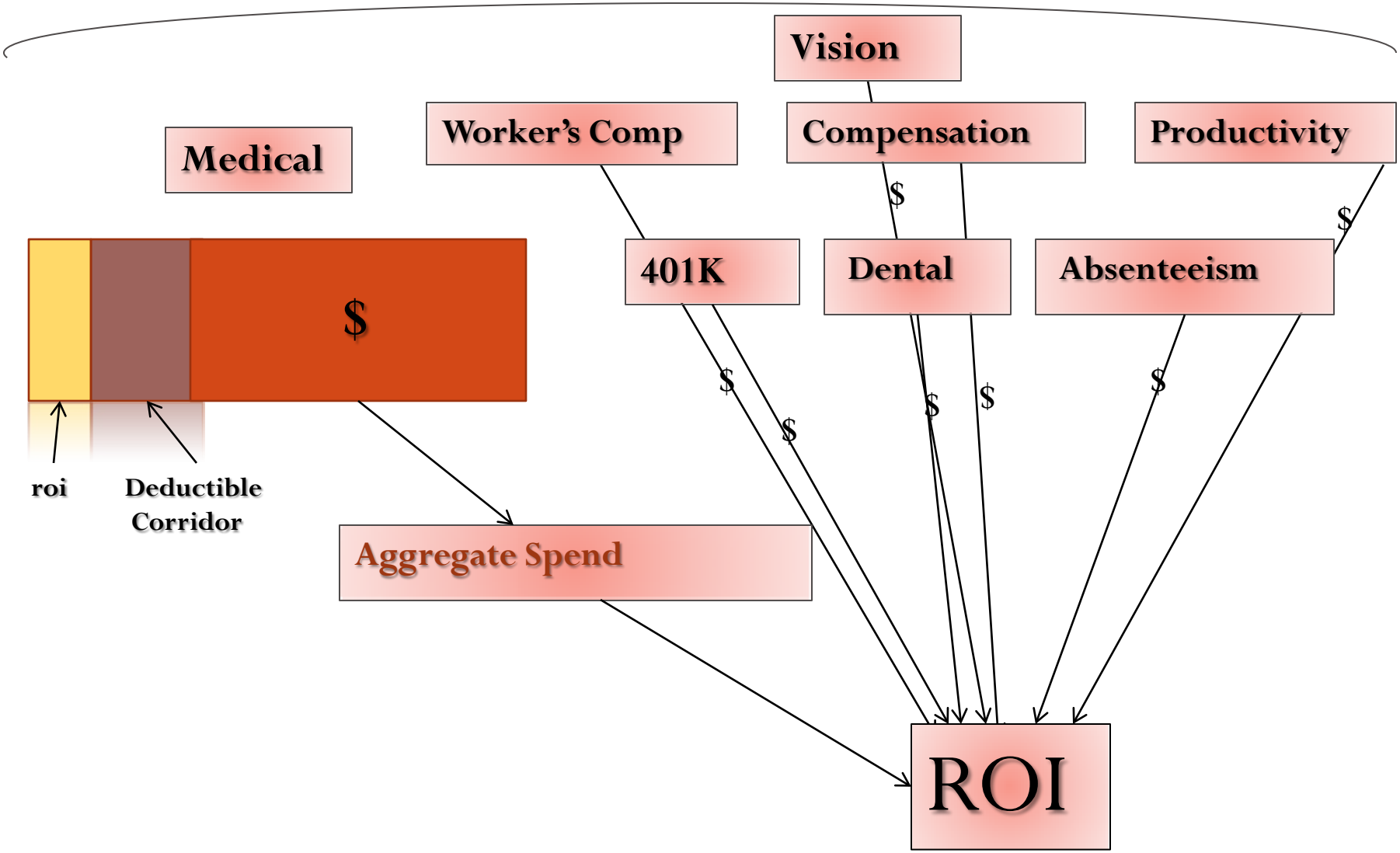


Benton County

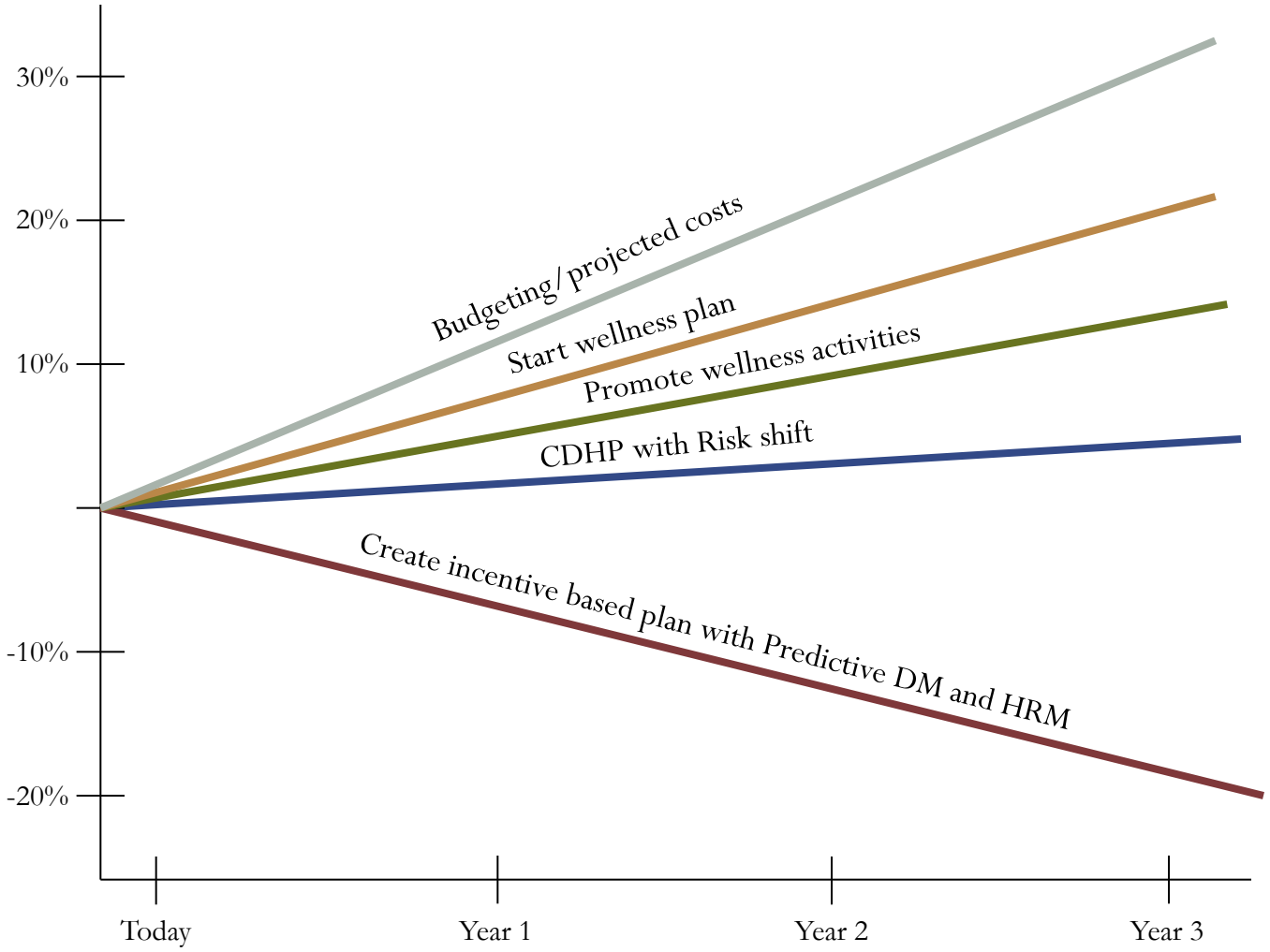
	2003	2004	2005	2006	2007	2008
Total Claims (Health and Drug)	$1,676,733.67	$1,871,837.10	$2,905,950.06	$2,280,030.71	$1,786,888.15	$1,822,941.46
Benicomp Claims	n/a	n/a	n/a	$81,829.97	$158,411.74	$138,437.80
Avg # participants	392	427	442	462	485	515
Avg $ per participant	$4,277.38	$4,383.69	$6,574.55	$5,112.25	$4,010.93	$3,808.50
Total claim lines	6963	9424	11682	12943	14663	12637
Avg $ per claim	$240.81	$198.62	$248.75	$182.48	$132.67	$155.21
Avg claims per participant	18	22	26	28	30	25
50% of specific exceeded	11	2	12	3	4	3
$ assigned to specific	$729,859.89	$238,515.85	$1,081,713.00	$682,999.64	$298,773.83	$237,483.52
% of specific $ to total	44%	13%	37%	30%	17%	13%
Avg cost of specific claim	$66,350.90	$119,257.93	$90,142.75	$227,666.55	$74,693.46	$79,161.17
Paid Drug Claims	$285,209.83	$422,270.32	$495,656.25	$528,263.43	$384,518.27	$354,442.84
Avg Drug $ per participant	$727.58	$988.92	$1,121.39	$1,143.43	$792.82	$688.24


Total Claim History 2003-2007
$3,000,000.00
$2,500,000.00
$2,000,000.00
$1,500,000.00
$1,000,000.00
$500,000.00
$0.00
2003
2004
2005
2006
2007
2008
Total Claims
Drug only claims

Employee Benefits



Employee Health Risk Strategies



What Is Measured in Screening

17 Screening Indicators, along with BMI and Blood Pressure :

- Glucose
- Fructosamine
- BUN
- Creatinine
- Alkaline Phosphates
- Total Bilirubin
- AST
- ALT
- GGT
- Total Protein
- Albumin
- Globulin
- ALB / GLO Ratio
- Triglycerides
- Cholesterol
    1. HDL
    2. LDL
- *Chol / HDL Ratio
- *LDL / HDL Ratio
- Serum Cotinine (nicotine)

What is Incented

Measurement	NIH Level	Standard Targets*	Generous Targets*
Blood Pressure	120/80	130/85	140/90
Body Mass Index	Less than 25 kg/m^2	Less than 27.5 kg/m^2	Less than 30 kg/m^2
LDL Cholesterol Total	Less than 100 mg/dL	Less than 130 mg/dL	Less than 160 mg/dL
Tobacco/Nicotine	None	None	None
Spouse Tobacco/Nicotine	None	None	None

* *For family coverage, spouses are rewarded for non-tobacco/nicotine use. All other reward categories are based on employee results.*

Wellness Rules Compliance

Compliance with July 1, 2007 Wellness Rules

- Rewards available annually
- Rewards available to all similarly situated individuals with an alternative way to earn full credit when goal is medically inadvisable or unreasonably difficult due to medical condition
- Rewards are designed to promote health and wellness
- Appeal process in place for each reward category
- Rewards designed to comply with 20% of total cost of coverage rule
- Partial/non-outcome based credits available
- Member materials disclose availability of appeal

“Share how the State could help you do it even better.”

1. Require health plans to release claims data to HIPPA compliant health promotion companies for analysis for developing health promotion strategies
2. Establish professional designation for health promotion practitioners – could be established by the Agent/Broker licensing board
3. Just like we need to provide the right incentives to employees to improve lifestyle the state could provide incentives to promote effective health promotion plans
    1. Require that companies report back results in terms of cost savings and improvement in aggregate employee health measurements to received the incentives

Contact Information

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- **John Ratelle**
- **National Accounts Director**
- **Benicomp Risk Solutions**

- John Ratelle started his risk management and insurance career over 27 years ago when he began working as a claims adjuster. The claims process is where many encounter both the benefit and challenges of actual interaction with insurance. This initial experience provided John with invaluable insights into managing risk.
- Risk and losses are often the result of a failure in process, planning and people. To address the evolving complexities of managing and mitigating risk, John has been a leader in creatively helping company's mange risk.
- John's career has been a series of firsts primarily focused on Human Resource Risk Management (HRRM) with the ability to measure outcomes and return on investment.
  - Created the first multi-line multi-year single aggregate program for one of the most respected health systems in the United States
  - Delivered the first incentive based actuarially supported utilization plan to address the challenges of increasing costs of providing health care benefits to Minnesota employers
  - Brought together the most effective strategy for managing employee health risks and proactively engaging behavior modification to reduce risk and improve productivity
  - Developed the first fully integrated program to proactively manage employee health risk that spans both employee benefit and workers' compensation
  - Delivered the first strategy to engage workers' compensation risk through the use of Early Intervention and Stay at Work (SAW) programs to drive significant reduction in OSHA recordable events actual claims
  - Designed the first captive driven plan to reduce the excessive costs of surety bonds for one of the nation's largest publicly held curtain wall contractors
- John's experience in the insurance industry has spanned both risk management of a major Minneapolis Corporations and experience at one of the largest insurance brokers as well as becoming a Director at another all while helping some of Minnesota's the largest companies manage risk. John has worked with The Mayo Clinic, Medtronic, Valspar, Supervalu, United Health Care, Taylor Corporation, Holiday Companies, Apogee Enterprises, Marsden Holding, HealthEast, Oregon Health Sciences University, and many others that view the management of risk as a key strategy for productivity and profitability.
- John is a graduate of St. John's University with a degree in economics and subsequently earned his MBA from University of St. Thomas.
- John currently serves as the executive director of four private family foundations and is the Assistant Treasurer for The Greater Minneapolis Council of Churches. He also volunteered as the President of the Edina Baseball Association while serving for six years.